MULTIMEDIA UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

# FINAL EXAMINATION

**TRIMESTER 2, 2022/2023**

## BBF1014 – FINANCIAL MANAGEMENT I

(All sections / Groups)

10 JULY 2023
9.00 a.m -11.00 a.m
(2 Hours)

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**INSTRUCTIONS TO STUDENT**

1. This question paper consists of 2 pages with 4 questions only.
2. Answer **ALL** questions.
3. The distribution of the marks for each question is given at the end of each question.
4. Please write all your answers in the Answer Booklet provided. Start each answer on a new page.

## QUESTION 1

(a) State savings bonds have a maturity value of RM100 six years after purchase. At what price must the state sell its bonds if they are to compete with fixed deposit accounts that pay 3% annual interest (compounded annually)? Assume no cash payments prior to redemption on savings bonds. (10 Marks)

(b) Nick Carte's pension statement shows that he will receive a one-time payment of RM150,000 on his retirement date, which is exactly ten years from now. He might get money now from a pension release company in exchange for his pension. If Nick can get 4% annual returns on investments with a similar level of risk over a decade, how much can he accept? (10 Marks)

(c) Determine the required rate of return for an asset with a beta of 1.8, assuming a risk-free rate of 5% and a market return of 10%. (5 Marks)

**(Total: 25 marks)**

## QUESTION 2

AJ's broker has presented him with two separate corporate bonds. Both bonds have yield to maturity 7.5%, par value is RM1,000, and they mature in 5 years. The first bond issued by Kavana Corporation's has an annual interest rate of 6.324% and was issued for a face value of RM1,000. The yearly coupon rate for the second bond issued by Moffats Enterprises is 8.8% and paid annually.

(a) Calculate the selling price for each bond. (10 Marks)

(b) AJ is able to invest RM 20,000. How many of these bonds could he purchase if he wishes to invest exclusively in bonds issued by Kavana Corporation? What if he wishes to invest solely in Moffats Enterprises bonds? (10 Marks)

(c) What would AJ's annual interest income be if he invested exclusively in Kavana bonds? How much annual interest would he earn if he only invested in Moffats bonds? (5 Marks)

**(Total: 25 marks)**

## QUESTION 3

Arfan Corporation desires a valuation of its outstanding preferred stock. The preferred stock issue has a par value of RM50 and pays an annual dividend per share of RM7.50. Currently, preferred equities with comparable risk yield an annual return of 8%.

a. What is the market value of the outstanding preferred stock? (8 Marks)

**Continued...**

b. How much money does the investor make or lose per share if he buys the preferred stock at the value determined in part (a) and then sells it when the required return on similar-risk preferred stocks drops to 6%? (8 Marks)

c. Please provide a brief explanation of the solution you arrived at by combining Part a and Part b in terms of gain/loss due to the changes in required return. (9 Marks)

**(Total: 25 marks)**

## QUESTION 4

(a) A firm employs a credit selection process to determine whether and how much credit should be extended to a customer. The credit manager may concentrate the analysis of a customer's creditworthiness on the five Cs of credit. What are the five (5) characteristics of credit? (15 Marks)

(b) Arfan Industries raised RM298,000 by issuing RM300,000 in 120-day commercial paper. How much interest do Arfan Industries receive on the commercial paper? What is the effective rate for a period of 120 days. (10 Marks)

**(Total: 25 marks)**

**End of Paper**